

**Office of the Secretary of State**

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July 27, 2017

Jack McGrail, Executive Director  
Oregon Racing Commission  
800 NE Oregon Street, Suite 310  
Portland, OR 97232

Dear Mr. McGrail:

We performed a risk assessment of Oregon Racing Commission's (commission) established internal controls over selected financial accounts. Our objective was to consider whether selected controls were suitably designed, placed in operation and operating effectively. To meet our objective, we looked at internal controls over the following accounts:

- Cash
- Other Business Licenses and Fees
- Pari-Mutuel Receipts
- Salary Expense – regular employees and board member stipend
- Travel
- Other Services
- Agency Program Related Services
- Distributions

**Background**

The Racing Commission consists of a five-member board of directors and an agency whose personnel are responsible for day-to-day operations. The commission regulates all aspects of the pari-mutuel industry in Oregon, including at off-track wagering facilities. The commission oversees horseracing at Portland Meadows Racetrack and at five summer fair race sites. Portland Meadows also offers wagering on its historic racing terminals, in which players wager on previously held races.

The commission also regulates the Multi-jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs (hubs). These hubs, also known as ADWs, conduct advance deposit wagering, a form of wagering on the outcome of horse races in which bettors must fund their account before being allowed to place bets. Wagering with ADWs is often conducted online or by phone.

The commission's goals include promoting horse racing in Oregon while ensuring the integrity of the sport as well as the safety of the contestants, public, and animals. Regulatory activities of the commission include licensing, inspections, and investigations of irregularities. The

commission's revenues come from the state share of wagering receipts, license fees, and licensee fines.

## **Results**

Based on our review, we found most of the commission's controls appear to be sufficient; however, we did find some areas where controls can be strengthened.

### **1. Safeguarding of Cash**

The Investigation & Licensing (I&L) office at Portland Meadows receives mutuel wagering receipts, collects fees for over 20 types of licenses, and collects fines imposed for violations of the laws and rules of racing.

At the time of our review, cash and checks awaiting deposit were held in an unlocked drawer, though the office itself is locked at all times. One employee, who does not receipt cash, has a desk in the office. In addition, the office experiences high foot traffic from licensees during racing season. An unlocked cash drawer offers the opportunity for theft.

*We recommend* management implement procedures to require cash in the I&L office to be safeguarded (i.e. in locked drawer or safe) within the office and accessible only to the three personnel authorized to issue licenses and receive cash.

### **2. Cash Receipts**

Cash receipts generally should be deposited within one business day for satisfactory control of receipts.

ORS 293.265 allows an agency to use a longer period of time to deposit small amounts of cash as long as the agency documents a valid business reason for doing so and the period is no longer than necessary to satisfy the business reason. Agencies are to make the documentation available to the Secretary of State, Audits Division upon request. In addition, Oregon State Treasury policy No. 02 18 01 PO requires a copy of such documentation to be filed with Treasury's Finance Division. The commission's filed business reason is 15 years old and may not reflect current needs.

*We recommend* management update its valid business reason for deposit transmittals in excess of one business day to address the commission's current needs and to file a copy with Treasury.

### **3. Travel Reimbursement**

The commission uses the Department of Administrative Services' (DAS) Shared Client Services for processing and recording accounting transactions. DAS accounting personnel may have misread an amount on a reimbursement request, resulting in a commissioner receiving an overpayment of \$50 on January 31, 2016 for travel expenses.

The correct amount of \$131 was listed 5 times on the Travel Expense Detail Sheet; however, it appears that DAS may have only looked at the coding section, where a "3" could easily have been mistaken for an "8," resulting in a payment of \$181.

*We recommend* management contact DAS accounting personnel to inform them of this error and to consider possible remedies.

4. Instate Travel Car Rentals

State policy, OAM 40.10.00.125, reads that employees will normally rent compact or compact-size economy vehicles. We found two instances in which car rentals for in-state travel did not appear to have a business reason for an upgrade.

*We recommend* management follow the state rental car travel policy, and if upgrades are warranted, maintain documentation of the reason.

5. Instate Travel Review Procedures

We tested an instate travel expenditure that was comprised of hotel costs for four employees and one consultant to attend a race meet. When compared to a separate invoice containing a travel expense detail sheet for the same dates, we noticed one employee had hotel charges for three nights in June when he was anticipated to be on overnight travel status. The hotel was not used by this employee due to a family emergency; management was not immediately told about the situation and, therefore, did not try to obtain a refund. It turned out the commission may not have received a refund even if it did request one; the hotel has a 2-week cancellation policy in effect each June.

*We recommend* management remind staff to communicate issues that affect accounting as soon as possible so refunds can be requested and documentation can be prepared timely.

6. Audit Expense Reimbursements

Advance Deposit Wagering hubs (ADWs) are licensed in Oregon to conduct pari-mutuel wagering for Oregon residents on the races simulcast and other races carried on the wagering menu. Pursuant to Oregon statutes, commission staff conduct annual on-site audits of the ADWs. The commission invoices the ADWs for travel expenses it incurs during the audits. We reviewed one out-of-state travel expenditure transaction for July 2016 costs related to two ADW audits, and found the expenditures were mathematically accurate and in compliance with state policy; however, the commission received \$45.85 less from the ADWs than the commission expended.

Management explained that at the time of the audits, the commission did not charge for meal per diem, only for air and automobile travel, and lodging costs. Our calculations showed that meal per diem was reimbursed, but reimbursement for mileage to and from the airport and baggage fees may not have been requested. The difference of \$45.85, though, cannot be tied to an exact amount from the travel expense detail sheet. Further, the commission personnel who receives the ADW reimbursement does not also receive a copy of the reimbursement request, and, therefore, cannot review the request or remittance for accuracy.

*We recommend* management review its procedures for requesting expense reimbursements from the ADWs and clarify which audit expenses are to be reimbursed,

and include a comparison of reimbursement requests with actual travel expenditures and ADWs' remittances.

7. Jockey Incentive Payments

The Jockey Incentive Program helps to ensure that Oregon summer race meets have a sufficient number of jockeys riding so scheduled races can be conducted. In 2016, \$23,000 was allocated between each fair by the number of race days; every jockey had the potential to receive \$50 at the end of each day and unused funds were divided equally among eligible jockeys following the last race of the meet. An All-Meets Jockey Bonus pool of \$12,000 was divided by the total number of shares earned by eligible jockeys. The commission paid this portion of the bonus to eligible jockeys at the end of the summer race season.

The State Steward tracks the all-meets bonus incentives on a "Points and Daily Payouts" worksheet. This worksheet, along with a payment instruction sheet, is given to the commission administration for payment processing. When we reviewed the 2016 payments to jockeys, we found one jockey was overpaid \$93.75 and another jockey was underpaid by the same amount because the payment instruction sheet did not match the "Points and Daily Payouts" worksheet for those individuals. In addition, based on our review of incentive payments between 2013-2016, it appears that two names may be the same person. If true, the jockey is owed \$448 for incentives earned in 2013.

*We recommend* management ensure jockey incentive payments are correct by possibly comparing the payment instruction sheet to the payouts worksheet, and comparing incentives earned and paid over multiple years. We further recommend that management remedy the incorrect and missing payments.

For items 3-7 above, control activities exist to ensure expenditures are accurate and supported. However, a required component of a complete internal control system is to monitor the internal control system. Adding or strengthening the monitoring component will allow the commission to ascertain whether internal controls are functioning as intended. Ongoing or separate monitoring reviews may include:

- Spot-checking payments to ensure they agree with documentation supplied to DAS;
- Reviewing car rental types with employee's job requirements (i.e. veterinarian equipment);
- Comparing reimbursement requests to ADWs with actual expenditures incurred by the commission; and
- Comparing jockey incentives earned to jockey incentive payments.

During our review, an additional item came to our attention that management may want to consider.

8. Statement on Standards for Attestation Engagements (SSAE) Reports

The Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) issued SSAE No. 16, the authoritative guidance for reporting on service organizations, clarified by SSAE No. 18. A service organization, such as a Totalizator company, performs outsourced services (calculating payouts) that affect the financial statements of a user organization. In Oregon, as a service organization, Totalizator

companies are required (in most instances) to obtain annual Type II SSAE reports. Auditors issuing Type II reports conclude on internal controls dependent upon whether complementary user controls have been implemented by the user entity.

If the commission relies on Type II reports as audit evidence that controls at the Totalizator companies are implemented and operating effectively, then the commission should also obtain an understanding of whether the user organization has designed and implemented complementary user controls and, if so, test their operating effectiveness.

*We recommend* management become familiar with auditing standard AU §402, SSAE No. 16, and SSAE No. 18 (effective for reports dated on or after May 1, 2017) to consider whether to modify its Audit Assurance Program. AU §402, *Audit Considerations Relating to an Entity Using a Service Organization*, and SSAE No. 18 are available on the AICPA website at: <http://www.aicpa.org/Research/Standards/Pages/default.aspx>. The AICPA website lists recently issued standards and indicates which may be recodifications of older standards.

We appreciate the time, effort and cooperation your staff provided. The professionalism we encountered and openness to suggestions have made this a collaborative process, and hopefully provided you with useful information.

This letter is intended solely for the information and use of commission management and is not intended to be and should not be used by anyone other than these specified parties. Should you have any questions, please contact Janet Lowrey or me at (503) 986-2255.

Sincerely,

*Office of the Secretary of State, Audits Division*

Salem, Oregon

cc: Charles R. Williamson, Commission Chair



# Oregon

Kate Brown, Governor

## Oregon Racing Commission

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August 10, 2017

Director Kip Memmott  
Secretary of State Audits Division  
255 Capitol St. NE, Suite 500  
Salem, OR 97310

Dear Director Memmott:

I am in receipt of the risk assessment letter resulting from your thorough review of agency operations both at the main office and at the Portland Meadows racing facility. The ORC appreciates the suggestions to improve internal controls to address the minor accounting issues which were uncovered by your review. The implementation of these suggestions has begun. I have taken particular note of the recommendation that appropriate agency personnel become familiar with auditing standard AU section 402, SSAE No. 16, and SSAE No. 18. This training will be undertaken and will undoubtedly help the agency maintain its position as the primary regulator in the country of these entities.

Once again, thank you for identifying areas that needed improvement and for working closely with staff in a collaborative manner to offer solutions. I believe the review was helpful to the agency and I appreciate the thoroughness and professionalism of the audit team.

Regards,

Jack McGrail  
Executive Director

